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From: Sachi A. Hamai
Chief Executive Officer

STATUS REPORT – AUDIT OF WORKERS' COMPENSATION THIRD-PARTY ADMINISTRATION SERVICES

On October 22, 2013, the Board approved a recommendation to find that workers' compensation claims third-party administration (TPA) services can be performed more economically by independent contractors. At that time, the Board instructed the Chief Executive Officer (CEO) to incorporate audit criteria which includes any known criminal activity, negligence, and overall contract compliance when evaluating TPA performance. This is the fifth bi-annual report to the Board reporting the fourth audit on existing TPA performance. The fourth report requested a six-month extension for the audit.

Background

The County of Los Angeles (County) Workers' Compensation Program (Program) was established under the authority of County Code Section 5.31.050. A Program mandate is to ensure the full provision of benefits under the law to employees whose injuries arise out of, and in the course of, employment. The Program is the largest local agency workers' compensation program in the State of California, which issues approximately 500,000 payment request transactions annually. The Program is bound by a complex set of statutory, regulatory, and case law requirements that complicate claims administration and present inherent system risks.

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Background (Continued)

A variety of quality control mechanisms are implemented to evaluate TPA performance, protect the County from improper payments initiated by TPA staff, and ensure adequate separation of duties. Payment transaction system functions are separated to require at least two individuals to release a payment transaction. Approval levels require at least two authorized individuals to release a workers' compensation payment transaction.

The following authorization requirements apply to workers' compensation benefit payment transactions:

- Payments up to \$4,000 require one authorization and a separate individual to release the transaction;
- Payments exceeding \$4,000 require two authorizations and a separate individual to release the transaction;
- Payments exceeding \$5,000 require three authorizations and a separate individual to release the transaction;
- Payments exceeding \$7,500 require four authorizations and a separate individual to release the transaction; and
- Payments exceeding \$75,000 require five authorizations and a separate individual to release the transaction.

On-Site County Representatives

Currently, six On-Site County Representatives (OSCRs) are headquartered at TPA facilities. These County employees perform various functions. Their payment transaction audit and review functions include the following:

- Reviewing and authorizing payment transaction requests exceeding \$7,500;
- Evaluating and authorizing payment transaction requests initiated by a Workers' Compensation Appeals Board (WCAB) order or award;
- Performing fiscal reconciliation of all claims resolved by WCAB indemnity order, WCAB indemnity award, or indemnity payment requests exceeding \$7,500;
- Identifying and recovering costs associated with penalties, excess costs, or overpayments caused by the contractor's actions or failures to act as defined in the contract; and
- Identifying and investigating payment transactions that are potentially fraudulent and notifying CEO Risk Management when such are identified.

Fiscal Reconciliation Process

The fiscal reconciliation process, or claim file balancing, requires the OSCRs to evaluate the workers' compensation award or order and ensure the past, present, and future benefit stream comports to the Court award or order. This process requires a careful review of indemnity benefits owed and paid, benefits currently being paid, and payments that will be issued in the future ("cycled" or system-generated payments). The reconciliation process includes calculating savings caused by an ordered commutation of benefits. Workers' compensation claim files that do not balance are returned to the TPA for correction or reimbursement.

Random Transaction Audit

The purpose of the random transaction audit is to select and review individual payment transactions that may be split (to circumvent payment authority levels) or represent duplicate payments (payments issued to the same payee with overlapping service dates) to ensure payment process controls are being systematically applied, ensure the individual payment is appropriate (not split or a duplicate payment caused by the inappropriate application of a "T" override), and identify potential fraud or abuse executed by TPA staff.

Methodology

During the period of November 10, 2015 and May 20, 2016, Tristar (Unit B) issued 40,798 payments totaling \$22,992,513.30. CEO Risk Management identified 95 transactions as potential duplicate payments using the claims administration system. Each payment transaction was audited to evaluate compliance with established protocols, unintended excess cost to the County, or TPA fraud. During the audit, CEO Risk Management staff reviewed payment transactions to determine the following:

- The payment transaction was appropriate and did not result in a duplicate payment;
- The payment transaction was appropriate and did not result in the splitting of the payment to circumvent authority levels;
- The amount of the duplicate payment and potential excess cost to the County;
- The payment was approved in compliance with established authority levels;
- That payment transaction supporting documentation demonstrated appropriate segregation of duties; and
- Whether the payment transaction was issued as a result of potential fraud.

Findings

The audit findings identified \$682.15 of duplicate payments which represent \$29.67 for every \$1,000,000 of payments issued. The duplicates were primarily caused by the same invoice being processed twice and did not represent any fraud or circumvention of the established system security protocols. Recovery of the excess charges is in process and the TPA is contractually obligated to reimburse the County.

SUMMARY

The CEO is committed to reducing Program fraud exposure and excess costs through the continuous improvement of processes and the deployment of advanced analytics. A multi-disciplined approach that includes TPA management and the deployment of new technologies is ongoing. The Workers' Compensation claims system business rules have been modified to increase protections that will lead to eliminating duplicate payments. However, by the next audit report, CEO Risk Management staff will:

- Audit the revised duplicate payment business rules to verify their effectiveness and make additional modifications as necessary.
- Create and deploy audit point analytics that identifies excess costs associated with processing Workers' Compensation transactions, including duplicate payments.
- Meet with TPA management to identify improvements in business process and to recover excess costs in accordance with the contract.
- Provide additional training to TPA staff on the identification of potential duplicates in ClaimsVision prior to payment approval.

CEO Risk Management will provide another audit report to the Board in January 2017.

If you have any questions or would like additional information, your staff may contact Steven T. Robles, Assistant Chief Executive Officer/County Risk Manager, at (213) 351-5346.

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STR:AR:RAH:AN:rn

c: Executive Office, Board of Supervisors
County Counsel